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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-115330

The Honorable James L. Cowen
Chairman, Railroad Retirement Board

Dear Mr. Cowen:

We reviewed the accounting system of the Railroad Retirement Board (RRB) to determine whether it was being operated in accordance with the design approved by the Comptroller General in 1971.

Except as noted in this report, the accounting system was being operated in accordance with the system design approved by the Comptroller General and appears to be substantially in compliance with the principles, standards, and related requirements prescribed by the Comptroller General.

Our conclusion is based on a review, including limited tests of the procedures used to control and account for revenues and collections, disbursements, obligations, and property; the accounting procedures used in maintaining the general ledger and the subsidiary cost ledger; and the effectiveness of the accounting system in providing financial information useful to management. A separate review is being made of the manual and automatic data processing controls in the retirement and unemployment benefit payments system and will be the subject of another report.

INTERNAL REVIEW OF
ACCOUNTABLE OFFICERS' FUNCTIONS AND
FINANCIAL REPORTS TO BE EXPANDED

The RRB did not provide for internal review coverage on a cyclical basis of accountable officer functions and financial reports. The Chief Executive Officer informed us that he concurred in our observations and that the internal audit staff will prepare a plan for systematic review of them.

The Congress recognizes the role and usefulness of internal auditing in section 113 of the Budget and Accounting Procedures Act of 1950 which provides, in part, that the head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit.

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The Comptroller General reemphasized to heads of departments and agencies their responsibilities for proper accounting and internal control, including internal audit, by letter dated August 1, 1969 (B-161457). To adequately discharge these responsibilities, the Comptroller General reemphasized that procedures and controls should include the conduct of systematic internal reviews independent of accountable officers to assure that adequate administrative procedures for systematically examining disbursement and collection transactions to verify their legality, propriety, and correctness are being followed; that effective controls are maintained over disbursements, collections, and balances for which accountable officers are responsible; and that appropriate administrative actions are taken to obtain any necessary corrective action required.

Title 3 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies states that internal audit should include the review of the operation of the whole system of management controls over operations and resources to ascertain whether they are functioning in accordance with their design and are functioning effectively. Further, the reliability of the data used by management for internal purposes and for external reports should be established through the internal audit examination and testing of accounting and other records.

During the 3 years ended December 31, 1974, the RRB internal audit staff made only limited reviews of accountable officer functions and no reviews of financial reports. The internal audit staff also did not review the adequacy of controls and procedures for retirement benefit payments and other administrative disbursements, fund controls, property and other assets, and the reliability of financial reports.

In a letter dated February 13, 1979 (B-114617), GAO reported to the Board that internal auditors were being assigned to perform line operating functions. Our current review indicates that in 1973 RRB again assigned internal audit staff to operating functions.

In commenting on the above matters, the Chief Executive Officer advised us that internal audit coverage was limited in the past due to the small staff, the need to allocate time for audit of field offices and for other reviews and investigations requested by the Board, and the need to detail staff to perform priority program functions in implementing numerous amendments to the Railroad Retirement Act or the Social Security Act.

The Chief Executive Officer informed us that, in accordance with our proposal, the internal audit staff will prepare a plan for systematic review of accountable officers' functions and financial reports. He also agreed that future diversion of the internal audit staff to operating functions would be limited to emergencies.

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TIMELY INVENTORIES OF
PERSONAL PROPERTY TO BE TAKEN

The RRB failed to take physical inventories of office machines every year and equipment and furniture every 2 years as provided in the approved accounting system design.

Subsection 12.5 of Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies requires independent checks on the accuracy of the accounting records through periodic physical inventories. Physical inventories taken at regular intervals are necessary to determine whether accounting procedures provide adequate and accurate information on changes in the investment in personal property.

The RRB conducted timely inventories of property located in field offices. However, the most recent inventory of headquarters property, covering all equipment and furniture, was completed in August 1969. Thus, the accuracy of the property accounting records and the effectiveness of the procedures in use have not been reviewed in over 5 years.

We proposed that RRB conduct timely physical inventories in the future.

In commenting on these matters, the Chief Executive Officer advised us that he plans to have a complete inventory taken of all accountable property in the headquarters building and that a regular inventory schedule would be followed thereafter.

PROCEDURES TO ESTABLISH ACCOUNTABILITY
OVER CASH REMITTANCES
TO BE ESTABLISHED

The RRB had not established adequate procedures for controlling collection remittances not immediately processed for deposit.

Title 7 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies requires that proper records and adequate physical control be maintained over monies received. Agencies are responsible for placing the collections under appropriate accounting control promptly upon receipt. Section 11 of Title 7 of the GAO Manual specifically requires that control records disclose:

1. Collections which have not been deposited.
2. Deposits in transit which have not been acknowledged by the depository.
3. Deposits which have been acknowledged by the depository.

Cash remittances at RRB are received by four different processing units as collections of unemployment insurance contributions, Medicare premiums, benefit overpayments, and miscellaneous general receipts. Only one unit prepared an immediate control listing or record for each remittance identified. Also, the transfer of remittances between units was not always recorded properly.

We proposed that RRB procedures provide for an accountability record over cash remittances which are not immediately scheduled for deposit and are transferred to another processing unit.

The Chief Executive Officer agreed that improved cash accountability procedures were needed and advised us that steps would be taken to establish them.

CHANGES IN THE ACCOUNTING SYSTEM

The RRB is in the process of converting its general and subsidiary ledgers from a manual system to an automatic data processing system. The objectives of the system are to (1) prepare more timely reports, (2) facilitate detailed analyses of accounting data, and (3) provide additional data for budget preparation and implementation. In addition, new fund accounts and related procedures will be established in implementing the Railroad Retirement Act of 1974 and the Regional Rail Reorganization Act of 1973.

The design for the accounting system of the RRB was approved with the understanding that any changes in the accounting system that materially affect the design would be discussed with GAO representatives and, if appropriate, submitted for approval as required by 31 C.F.R. 101.11. Therefore, these changes should be discussed with our representatives responsible for the approval of accounting systems.

In addition, RRB officials agreed to provide revised sections of the design manual to the representatives of our Chicago Regional Office, as the changes are implemented.

Accordingly, we are making no recommendations on this matter, pending the receipt of the changes to the accounting system.

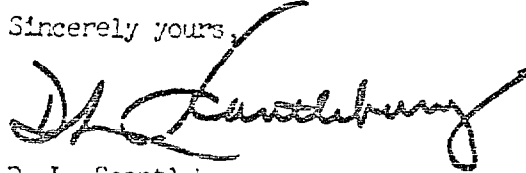
In accordance with 31 C.F.R. 101.11, the records supporting the accounts of accountable officers through June 30, 1974, may be transmitted to the Federal Records Center for storage as provided by RRB's record management program.

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We want to thank the Chief Executive Officer and the staff of the Office of Budget and Fiscal Operations and the Office of Management Control for their cooperation and assistance.

We would appreciate your comments and advice as to any further actions taken or planned on the matters discussed in this report.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "D. L. Scantlebury", written in a cursive style.

D. L. Scantlebury
Director

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